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SIPDIS

SENSITIVE

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PASS TO USTR FOR ANDREA GASH DURKIN

E.O. 12958: N/A

TAGS: PBTS ETRD PGOV HO
SUBJECT: MADURO ANNOUNCES RETALIATORY TARIFFS AGAINST NICARAGUA

¶1. (SBU) Summary. On March 3, President Maduro announced a number of retaliatory countermeasures against Nicaragua including a 35 percent tariff on goods and increased fees for the use of Puerto Cortez and national highways. The retaliatory action by the GOH is the latest chapter in the long-running dispute between Honduras and Nicaragua over their maritime boundary. The GOH hopes that this action will force the GON to repeal the 35 percent tariff they imposed in 1999 in response to the ratification of a maritime treaty between Colombia and Honduras recognizing the 15th parallel as the maritime boundary. The announcement of the countermeasures has allowed Maduro to look proactive, boost his popularity ratings and has provided the GOH the leverage against Nicaragua. End Summary.

¶2. (U) On March 3, President Ricardo Maduro announced that he was sending to the Congress a decree to apply retaliatory countermeasures against Nicaragua in response to the GON's failure to repeal the 35 percent tariff that was imposed in ¶1999. The retaliatory countermeasures include a matching 35 percent tariff on all Nicaraguan goods and increased fees for the use of Puerto Cortez and national highways. In the announcement, Maduro stated that the Nicaraguan tariff had severely damaged the Honduran economy and called on the GON to abandon its anti-integrationist position. Further, he noted that the measure Nicaraguan President Bolanos had proposed to send to the Nicaraguan National Assembly to temporarily repeal the tariff was unsatisfactory. If the tariffs are imposed, Honduras believes they would deal a serious blow to the Nicaraguan economy, especially the coffee industry, since almost 100 percent of Nicaraguan exports pass through Puerto Cortez.

¶3. (U) The GOH's announcement of the imposition of retaliatory tariffs against Nicaragua is the latest chapter in their long-running dispute over their maritime boundary. The dispute began when Honduras ratified a maritime treaty with Colombia in 1999, recognizing the 15th parallel as the maritime boundary. That same year, Nicaragua retaliated by filing an ICJ case and more importantly, imposing a 35 percent tariff on Honduran goods and services. The Nicaraguan tariff has remained in place despite a Central American Court of Justice ruling that it is illegal.

¶4. (U) With former Nicaraguan President Arnoldo Aleman deposed as President of the National Assembly, the GOH had expressed optimism in the last few months that Bolanos would make good on private assurances to lift the tariff and thereby take an important step toward regional economic integration. The ongoing U.S.-Central America Free Trade Agreement (U.S.-CAFTA) negotiations and the recent ICJ ruling in favor of the GOH's petition against the tariff were viewed as additional incentives.

¶5. (SBU) Comment: After three years of restraint, the GOH finally reached the point where they felt the leverage provided by Honduran countermeasures was the only way to ensure repeal of the Nicaraguan sanctions. The Honduran Congress was prepared to consider a retaliatory tariff bill in January, but postponed the action after public assurances from Bolanos. However, after intense pressure from the Honduran business community in the last two weeks, Maduro promised to take action after a ten-day waiting period. By taking the initiative, Maduro was able to look proactive, possibly boost his sagging popularity and deflect attention from the recently introduced tax package. Further, the announcement of the retaliatory measures solidified his support in the business community.

¶6. (SBU) There still remains a possibility that the GON will repeal the 35 percent tariff in the next week to avoid both the countermeasures and regional squabbling during the U.S.-CAFTA negotiations. We understand that there have been discussions between the countries Congressional Vice Presidents in an attempt to resolve the issue before countermeasures are enacted. If the sanctions are adopted,

vested interests may develop, making repeal both politically and economically difficult. The Honduran press is already quoting figures on badly needed government revenue that will accrue from the countermeasures. It remains to be seen whether the Honduran proposal will only add fuel to an already volatile situation or act as the final catalyst to successfully repeal the Nicaraguan tariff.

Palmer